

TENNESSEE HOUSING DEVELOPMENT AGENCY  
BOARD OF DIRECTORS  
January 18, 2001

Pursuant to the call of the Chairman, the Tennessee Housing Development Agency Board of Directors met on Thursday, January 18, 2001, at 1:00 P.M. in Conference Room A in Suite 1116, Parkway Towers, Nashville, Tennessee.

The following members were present: Janice Cunningham for Steve Adams, James Floyd for Jay Ballard, Sam Bartholomew, Susan Brown, William Bruce, Riley Darnell, David Hayes, Harold Hunter, Ann Butterworth for John Morgan, John Lamar for Warren Neel, Jeff Reynolds, Larry Rogers, and Jerry Sisson. Gerald Reed represented Mr. Darnell for a portion of the meeting.

The following members were absent: Mark Cunningham, Leigh Ferguson, Carolyn Flagg, Ronnie Knight, Bill Long, and Calestine Williams.

Chairman David Hayes opened the meeting for public comment. No one asked to address the Board. Next, Chairman Hayes declared a quorum was present and called the meeting to order. Upon motion by Mr. Bruce, seconded by Ms. Brown, the minutes of the November 16, 2000, meeting were approved as distributed.

Janice Myrick, Executive Director, said there were two staff members present to receive service award certificates. She presented a 10 year service certificate to Coralee Holloway, from the Community Programs Division, and a 25 year service certificate to Penny Plumlee, from the MIS Division. Ms. Myrick said State Audit is reporting no findings with the Agency as a result of their financial audit and she thanked Agency staff for that accomplishment. She introduced the Agency's directors who in turn introduced their assistant directors and chiefs.

The next agenda item was the Monthly Board Report. Ms. Myrick said the semi-annual report on race and gender of Agency staff is included in this month's Board Report. Staff estimated mortgage production for the current fiscal year would be approximately \$125 million. For the first six months of the fiscal year, production is at \$47 million. She said the Board has done so well in reducing production, that staff is now ready to make recommendations to increase the number of people who may be served.

The first committee report was from the Bond Finance Committee. Ms. Butterworth said the Committee discussed the subsequent draw under Series 2000CN-1 and authorization of Issue 2001-1. The Committee recommended Board approval of the cover resolution included in the Board material. Lynn Miller, General Counsel, said the Bond Finance Committee approved the Plan of Financing for Issue 2001-1. If the Board approves the cover resolution, the Board will delegate authority to the Bond Finance Committee to determine whether a subsequent draw under Series 2000CN-1 or whether issuance of new bonds is the appropriate route to take and to execute either of these two transactions. The Committee will meet on February 11, 2001, to make the determination. Upon motion by Ms. Butterworth, seconded by Mr. Darnell, the Board approved the cover resolution.

Ms. Butterworth said the Bond Finance Committee selected a pool of underwriters. These underwriters are available to assist the Agency if the Board chooses, at any time, to go forward with a negotiated debt issuance. Mary Margaret Collier, Director of Division of Bond Finance in the Comptroller's Office and Assistant Secretary to the Bond Finance Committee, explained the Request for Proposal process. Upon staff recommendation, the Committee selected Paine Webber and Merrill Lynch as senior managers in the underwriting pool and Morgan Keegan as a co-manager for the pool.

Ms. Butterworth said this pool would be in place for three years with the Agency retaining, through the Bond Finance Committee, the ability to review and adjust the pool at any time.

Ms. Butterworth said the Bond Finance Committee discussed a continued relationship with Bond Counsel who has a contract period ending on June 30, 2001. The Committee approved extending the contract with Bond Counsel. The contract with the Financial Advisor was also discussed. The contract for Financial Advisor expires on June 30, 2001, and staff was directed to proceed with a Request for Proposal process.

The report of the Policy & Programs Committee was next on the agenda. Mr. Sisson stated the first item considered by the Committee was revisions to the 2001 Low Income Housing Tax Credit Qualified Allocation Plan ("2001 QAP"). He called the Board's attention to the page titled, "Recommendations by Policy & Programs Committee Quick Reference" (the "Quick Reference") distributed to the Board members, a copy of which is attached to and made part of these minutes. Mr. Sisson said there have been changes in federal legislation, since the Board approved the 2001 QAP at the November 2000 meeting, which must be addressed in the 2001 QAP. He pointed out that the federal legislation increased the amount of tax credits available to the State of Tennessee from \$1.25 to \$1.50 per person. Mr. Sisson stated the scoring changes outlined on the Quick Reference sheet track the requirements of the new federal legislation. He described the changes made and said the total points available for Initial Application scoring will increase from 410 to 411 as a result of these changes. Mr. Sisson moved that the Board approved the changes to the 2001 QAP as reflected in the Quick Reference and as recommended by the Policy & Programs Committee and Mr. Reynolds seconded. There was no further discussion and the motion passed unanimously.

Mr. Sisson said the Policy & Programs Committee received a report on the Housing Cost Index for 2001. Mr. Sisson said a revised memorandum from Lorrie Shearon and a Board resolution regarding the Housing Cost Index for 2001 was distributed. By statute, the Agency is required to calculate a Housing Cost Index, which represents what the average Tennessee household would pay, as a percentage of income, for the average Tennessee house. If the Housing Cost Index exceeds 25%, the statute provides that the Agency's programs are automatically operative. If the Housing Cost Index drops below 25%, the Board can make a finding that the programs are still necessary. He said the memorandum reflects a housing cost index of 24.24%. Mr. Sisson moved that the Board accept the Housing Cost Index calculation of 24.24% as of January 17, 2001, and expressly authorize the continued operation of the Agency's financial assistance programs as provided in the resolution. Mr. Bartholomew seconded and the motion passed by unanimous vote.

Mr. Sisson referenced a memorandum prepared by Ted Fellman, Chief Financial Officer, which provides information about the Agency's mortgage resources and production. The Agency has resources available to implement the Multifamily Tax-Exempt Bond Program for 2001. Mr. Sisson noted that the Agency normally receives an annual allocation of \$75 million in volume cap from the Department of Economic & Community Development ("ECD"). As a result of federal legislation, there is an increase in the amount of volume cap allocated to the State of Tennessee and Ms. Myrick is pursuing an increase in its annual allocation amount of volume cap from ECD.

Mr. Sisson said the Policy & Programs Committee considered the 2001 Multifamily Tax-Exempt Bond Program ("2001 Multifamily Program"). The Program Description for the 2001 Multifamily Program included in the Board material ("2001 Program Description") provides for \$30 million to be divided between the three Grand Divisions, \$10 million each. Also, language regarding pre-commitments was no longer applicable and was deleted and scoring in the 2001 Program Description for Qualified Census Tracts follows the language in the same section in the 2001 Low Income Housing Tax Credit Qualified Allocation Plan. Mr. Sisson said the Committee made two amendments to the draft 2001

Program Description. First, language relating to the limit on the amount of tax credits per unit allowed for 4% tax credit projects will be used as underwriting guidelines instead of actually setting a limit. Second, the Committee established a system so that any multifamily bond authority remaining in a Grand Division after the cure period will be allocated to the next qualified applicant in that Grand Division. If there is not a qualified applicant in the Grand Division, then the remaining multifamily bond authority will be allocated to the next qualified applicant statewide. Upon motion by Mr. Sisson, seconded by Mr. Bruce, the Board approved the 2001 Program Description, as amended, contingent upon the Agency receiving the \$75 million volume cap allocation from ECD. Mr. Bruce added that there was discussion in the Policy & Programs Committee meeting about the \$30 million which has been allocated for the multifamily program for the last several years, but all of those funds were not utilized. However, if demand for the multifamily program should increase, then the Board can reconsider how much to allocate to the program.

Mr. Sisson said the Policy & Programs Committee reviewed the income limits for mortgage programs. He said the Committee's recommendation to the Board is to establish income limits at 80%, for 1-2 person households, and 95%, for 3 or more person households, of the state median income or the area median income, whichever is higher, rounded to the nearest \$500, to be effective February 1, 2001. If HUD provides new income figures after February 1, 2001, the change in income limits will be based on the new information from HUD and will become effective the first of the following month. If this happens, staff will report the change to the Board. Mr. Sisson stated this becomes an automatic, self-executing policy based on HUD's release of new income limits annually. Staff would bring income limits to the Board when production issues are in question. Mr. Reed stated that Mr. Darnell does not think raising the income limits at this time is prudent. Mr. Darnell's opinion is that the Board should wait at least until the next Board meeting to judge what affect lowering the Agency's interest rate and raising acquisition cost limits will have on production. Upon motion by Mr. Sisson, seconded by Mr. Bruce, the Board approved the Policy & Programs Committee's recommendation regarding income limits. Mr. Reed voted no.

Mr. Sisson stated the Policy & Programs Committee heard several staff reports. He said staff is continuing work on two new mortgage programs to utilize funds which must be loaned at 0%. Staff reported on the progress of the New Start 0% and the New Start 5% programs but action was deferred. He said staff reported on the progress of the Section 8 Contract Administration program. The Agency's administration of the Section 8 rental subsidy assistance contract is a significant program. Owners meetings are being conducted at this time, but payments are not being made to owners yet. Mr. Sisson said staff has prepared a draft outline for direct servicing, however, work on the project has slowed due to staff being in training to implement a new database software program. He said the six tax credit petitions are currently in the administrative hearing process. The State Attorney General will represent the Agency in the matter. Basically, the owners of the tax credit developments in question are disputing the way the Agency underwrote their tax credits. A hearing is scheduled for March 27. Mr. Sisson said staff reported on the status of the loans left uninsured when First Republic Mortgage Corporation closed down. Staff has successfully completed documentation and have all of the loans insured except for three. Two of these are in process and should be insured but one may not be insured due to payment history.

Next on the agenda was other matters for Board consideration. Jane Boles, Director of Community Programs, reported there was a good turnout for a workshop was held the prior week on the HOME Program. She said the Agency is partnering with the Department of Mental Health and Developmental Disabilities ("MHDD") on housing for the mentally ill. MHDD had an application round with their own funding which was due December 1, 2000. They have \$2.5 million available and received requests in excess of \$10 million. The Agency will be contributing Agency and HOME funds to those projects. Ms. Boles said the MHDD and Agency funds being used for this project will count as match for HOME dollars.

Kathy Whalen, Director of Section 8 Contract Administration, said the Agency received payoff requests from Hilltoppers regarding the Janet Clark I and Janet Clark II Group Homes. She said they are having trouble with cash flows and maintaining tenants because these are older group homes for disabled persons and the current initiatives are to mainstream disabled tenants into other housing environments. Ms. Whalen said Hilltoppers may have more money in escrow than what they owe on their loan balances and they think paying off their loans will help their situation. Ms. Miller said the Hilltoppers payoff requests comply with the current Board policy and staff recommends Board approval subject to the conditions outlined in Ms. Whalen's memorandum dated January 18, 2001, a copy of which is attached to and made part of these minutes. Upon motion by Ms. Brown, seconded by Mr. Bartholomew, the Board approved the staff recommendation for the Hilltoppers payoff requests. Staff was asked to report to the Board once the payoffs were accomplished or in six months when the payoff approval expired.

The legislative update was next on the agenda. Ms. Myrick reported that the National Council of State Housing Agencies ("NCSHA") was successful in getting the private activity volume cap and the tax credit cap increased. NCSHA will now pursue getting the 10 year rule repealed, simplifying the process for setting acquisition costs limits, and allowing the tax credit program to use statewide median instead of area median, into President Bush's tax proposal. Ms. Myrick explained that the 10 year rule restriction states that 10 years after bonds are issued, prepayments received must be used to redeem debt in that bond issue. The Agency cannot recycle the prepayments into mortgages or pay off higher coupon debt on other bond issues. Mr. Fellman pointed out that the Agency lost the flexibility to use \$32 million last year due to the 10 year rule restriction. During Board discussion, it was the consensus that the repeal of the 10 year rule was most important to the Agency. Chairman Hayes said Board members should emphasize the repeal of the 10 year rule to the Congressional delegation whenever they have the opportunity.

Chairman Hayes stated the NCSHA Legislative Conference would be in Washington, DC, on March 19-21. He asked anyone interested in attending to contact him or Janice Myrick. Mr. Reynolds stated there was an issue about a statute which required a tenant to serve on the governing board of a public housing authority. NCSHA was going to try to work with HUD last year to get that corrected but he does not think it was corrected. Chairman Hayes agreed and said it needed to be addressed at the Legislative Conference if possible.

There was no further business to come before the Board and the meeting adjourned.

Respectfully submitted,

Janice L. Myrick  
Executive Director

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